SAFEGUARDING THE FUTURE OF PRIVATE BUSINESS

WIGGINTON E. CREED

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BARBARA WEINSTOCK
LECTURES ON THE MORALS
OF TRADE

This series will contain essays by representative scholars and men of affairs dealing with the various phases of the moral law in its bearing on business life under the new economic order, first delivered at the University of California on the Weinstock foundation.

SAFEGUARDING THE FUTURE OF PRIVATE BUSINESS

Business morality is higher today than it ever has been in the world's history. The trader of antiquity was a scalper who worked behind the legal maxim, "Let the buyer beware"! In the mercantile business of today, that doctrine has disappeared. Vendors exercise a very high degree of good faith toward buyers, and extensive warranties of goods sold are implied where not expressed. The growth of these implied warranties in sales measures fairly well the rate and degree of advance in mercantile honor.

As a corollary, truthful advertising has become an established practice, indeed, *the* slogan of present day merchants. They cannot afford, under modern conditions, to advertise for a one-time customer. Truthful advertising is the only kind of advertising that pays; but there is more than "Honesty is the best policy" in their attitude. Those who fall short of the standard suffer a complete loss of caste and standing among merchants.

Improvement in broader and larger aspects of business honor is equally evident. Condemned standards may very well be illustrated by the executive who secretly bought the stock of his fellow-stockholders, when he alone knew that the company properties would be sold

at a price which assured him a handsome profit through his stock purchases. Such a transaction was once quite generally considered adroit, on the whole, legitimate, the man who maneuvered it classed as keen, and rather to be envied. Executives who did that sort of thing today would meet the overwhelming contempt of the business world and would thenceforth be men marked for distrust, outlaws amongst their fellows.

The investigation of the life insurance companies, which brought Mr. Secretary Hughes into prominence, proved to be a very decided stimulus to moral progress in the whole field of business activity. The disclosures were

scandalous, but also exceedingly serviceable. Out of them came some pretty clear thinking and valuable reflection which created much better concepts of responsibilities and duties in business. The most important lesson seemed to me at the time to be epitomized in a passage between Mr. Hughes and an executive officer in control of trust funds which belonged to the policyholders. Records were lacking, and Mr. Hughes asked what had been done with the funds the previous year. The official answered that he could not remember what he had done with these funds any more than Mr. Hughes could remember what he had done with the legal fees he had collected the year before. To this Mr.

Hughes in substance replied: "You will please understand, sir, that I am not trustee of my fees."

This clarification of the concept of trusteeship in business has done more than help in the creation of public standards which will not tolerate the petty and grand larcenies of other days. It has contributed as well to bring about an abandonment of the old individualistic philosophy and supplant it with a recognition of the rights and interests of the body politic as a whole. The weight of business opinion today is against selfish disregard of the common good and against the use of the balance sheet as the sole test of business success.

Let us inquire a moment as to the evidence of this attitude.

In industry, a revolution has been accomplished in the theory of liability for injuries to employees. No longer is an injured workman deprived of compensation because the injury occurred through his own fault, or without fault on the part of his employer, or through the negligence of a fellow-workman. The industrial loss to the individual is met by industry itself under compulsory compensation plans which the public accepts as a fair compromise in its own interest. Even before these plans became compulsory, and whilst they were still elective, business, to a very notable extent, voluntarily accepted them.

Pure Food laws to protect the health and Blue Sky laws to protect the pocket of the public are on the public statute books. No more vigorous opposition to repeal or modification of these laws would come from any source than from established business.

In banking and in the public service industry, sound doctrines of regulation have been adopted. This regulation covers only practices and policies in banking, leaving to the play of economic factors under competition the fixing of prices and encouraging banking to be competitive. On the other hand, regulation in the public service industry is extended not only to practices and policies but also to prices. The public

policy of the country has encouraged monopoly in this industry, first, to avoid the ultimate economic loss involved in unnecessary duplication of large engineering works and, second, to hold out as the incentive for development certain, though relatively small, returns instead of large profits at public expense. These two types of regulation are fundamentally different and could not be interchanged without danger, but both are accepted as essential to the general good of society, and coöperation in attaining the ends sought by these regulatory systems has been predominant in each business.

Here are examples of changed attitudes now embodied in statutory pre-

cepts; but laws are not the only evidence of the new point of view in business; indeed, there are relations in business which statutes cannot reach. One of these is that between employer and employee. The old personal relation that existed between them in the early history of American industry was highly desirable and beneficial to each of them and to society, but has been swept away by the forces of concentration and specialization in industry. Business has been groping for years to find a substitute. The present tendency is to look to the development of a science of personnel as a key to the solution of the problem. An outstanding feature of current business history is the rapid rise of interest

in this science and in all its complexities.

Large-visioned employers recognize that the personal welfare of workers is an essential consideration both from the point of view of business and from the point of view of the state. One finds today that the importance of placing a man in work for which he is suited by nature or education and which is congenial to him is stressed as never before in our business management; that it is seen that he must be afforded opportunities to advance himself, to educate himself and his family, and to this end schools are provided beyond the educational system of the state; the housing question is accepted as both the problem

and the responsibility of the employer — in fact, the best thought in business regards it just as important to make provision for capital to meet a housing problem, if one exists, as it is to make provision for capital to buy machinery and erect buildings to cover it — and, finally, the importance to the workman of security of tenure in his job is understood and appreciated. Business is no longer indifferent to the gross injustice of discharge through the whim, caprice, or indisposition of a superintendent or minor executive, or because of failure when due to misplacement of a man in the organization.

That this has all added to efficiency does not in the least detract from the

credit due business for its own contribution to the work of improving the relation between employer and employee. There are petty men who stand in the light, but their places are being taken in increasing numbers by men of larger vision. The point is that the relation has changed and in the direction leading to social advance.

The chief critics of business are wont to say that all improvements in policies and practices have been forced upon business or accomplished without any help from it. Their point of view seems to be that business is always "whipped into line" by some superior moral force working from the outside. But this rather bitter arraignment fails to account for the

old popularity of condemned standards or to recognize the underlying influence which has revolutionized the ethics of business.

The fact is that the old conceptions represented fairly well the morality of the country. The national slogan was "Business is business." We insisted upon material development; we demanded results and, with some faint protests, we seemed to conclude that the ends sought were important enough to justify the means. Business was a fight with precious few rules. Our captains of industry, who won, were acclaimed national heroes and accorded the respect and acclamation of royalty. The pendulum swung too far. Reaction came. Today, the sons and

grandsons of the old captains of industry are not enlisted under the banner inscribed "Business is business" simply because that inscription no longer reflects the national sentiment.

This change has not come to pass by applying some outside scourge to business. The result was achieved because upon due consideration of all the evidence the country rendered judgment that "Business is business" is a bad thing for society. In other words, public opinion has been the effective force in improving the standards of ethics in business. A good example is to be found in the case of our workmen's compensation laws. If these laws had been adopted and had gone before the courts ten years

earlier than they did, the decisions would in all likelihood have been against their validity. We were not then ready for them. When they were adopted and did pass the courts, it was not by reason of hue and cry or the noise of agitation, but because enough evidence had accumulated of the injustice and danger of the old system to create a dominant public opinion in support and justification of the new plan; and that public opinion expressed the judgment of people both in and out of business.

One must recognize the fact that such laws are often carried to the highest courts, which means that some one with money enough to make a fight against them does make the fight. Judg-

ing solely from litigation of this kind, which is usually given wide publicity, one is apt to overlook and ignore the influence of business men in forming the final effective public judgment. Their contribution is not to be measured by the attitude of the extremists among them. They have not been unanimous, or anywhere near unanimous, with respect to vital public issues. The vigorous opposition to change and improvement coming from some has been offset time and again by the more quiet, but none the less effective, support from others. The dividing line is not between "big" business and "little" business, but between individuals on the basis of individual qualities.

Our tendency is to appraise an entire group by those members of it with whom we disagree. Avoiding this error and examining all the evidence, it will be found that large numbers of men in business have exerted very substantial influence toward creating higher standards and better conditions. Indeed, business has developed to be so vital a part of modern existence and is so intimately related and interwoven with the daily life of all of us that no public opinion of dominant force is created without the acquiescence or partisanship of some substantial part of the business world.

Public opinion which is a dominant force is not the opinion of a large number of landowners, or a large number of

skilled mechanics, or a large number of lawyers, or a large number of any other group. It is much bigger than group opinion and does not represent mere group interest or tradition. It is a judgment in the common interest without regard to group affiliation, and reflects the public spirit of the country. Law which is followed or enforced in this country represents the crystallization of public opinion, so defined. No more interesting illustration of this fact is to be found than in the development and growth of our constitutional law during the last two decades. The words of the Constitution are not the Constitution. The Constitution is what the courts say those words mean. Interpretation has

mirrored public opinion. The broadening of the police power has definitely amended the Constitution time and again without any vote of the states. For years the courts approached all legislation designed to protect the public safety, health, or morals solely as a question of power under the express limitations of the Constitution. In contrast today, the approach is very largely upon the test of policy, and public opinion determines that policy. Amendments to the Constitution made in this way have been completely effective, whereas the eighteenth amendment to the Constitution, accomplished by the vote of the legislatures of more than three-fourths of the states, has not, simply because there are

not enough people in all our groups who insist that it be effective.

It is necessary always to keep clearly in mind the distinction between public opinion which represents the public spirit of the country and the public opinion which reflects mere group demands. The latter type is exceedingly conspicuous. Organized groups exist on every hand to promote this interest or that interest and to dominate our national policies to accomplish their wholly selfish purposes. Such groups may harass our established institutions; they may prevent the most effective functioning of these institutions; they may even produce oscillation in government by securing unsound legislation now, to be followed later by

amendments, modifications, or even repeal. But they cannot produce any fundamental change in our institutions or in our standards unless they succeed in submerging self-interest and assemble enough evidence to produce conviction in the mind of the average citizen that the group demand is "the best course for the country, all things considered."

One finds among these group demands an insistence that government extend its functions, that it interfere more and more with the daily affairs of the citizen both in private and in business life. As a result, movement after movement is started to over-regulate by statute and to plunge government into business.

The instinct of the average American

is to preserve his self-reliance and to oppose undue or excessive paternalism in government. On the whole, he hesitates to put a quietus on initiative, or to risk undermining the moral stamina of the country by attempts to make men honest, just, and moral solely by the force of law, and inclines to the conviction that the best inducement to a well-ordered life or a well-ordered business is a judicious amount of self-interest tempered by an adequate recognition of the common good. On the issue of government in business, the attitude of the average American, economic and moral questions aside, appears to be based on the logic of the situation — that government must first demonstrate its ability

satisfactorily to discharge the duties and obligations already laid upon it before it undertakes an extension of functions leading to government ownership and operation of any business. Abnormal regulation of business and private conduct and extension of governmental functions during the war gave a foretaste of how irksome and expensive unlimited governmental activity might be in time of peace. Whether this be the cause or not, there is at any rate a decided reaction against these two tendencies, which was reflected in President Harding's epigram: "Less government in business and more business in government."

But one cannot deny that demands continue for more statutory and politi-

cal regulation and for further extension of governmental functions. As time passes, these demands will either become more insistent and resolute or become enfeebled for lack of nourishment. What, then, shall business do if it is to preserve to the individual his right to the exercise of initiative and the cultivation of self-reliance out of which honor and success have grown? Whatever else may be required, it seems essential that there be pursued a policy of absolute frankness as to business operations and that business continue to develop its sense of the large responsibilities it owes to society as a whole.

Peoples, and not princes or potentates or Presidents or Congressmen, are de-

ciding the economic policies of today. But how are these questions to be decided? Are they to be decided upon facts or upon prejudices? Quite obviously prejudices should not influence the determination of economic issues. Facts are much safer guides. When our people understand and possess the facts, they may generally be trusted to render intelligent, sound, and just decisions; but they do at times lack understanding and facts, and their conclusions are then very apt to be formed by prejudices or appeals to prejudices. For example, the attitude in this country toward combinations in trade was so suspicious and antagonistic that up to the outbreak of the European war public opinion re-

fused to support legislation permitting combinations in the export trade even with adequate safeguards for domestic business and the citizens of this country. The first year of the war afforded so general an instruction on the operations of the selling and buying combinations in the export and import business of foreign countries that public opinion acquiesced in the adoption of legislation permitting American combinations in export trade, provided such combinations did not injure the consuming or competing public of this country. Conditions warranting such legislation had existed for years. The changed attitude of the public was the result of education and understanding through chance, and

the public judgment was an extremely practical and beneficial one.

Another illustration of the operation of prejudice is to be found in the fact that the term "middleman" is used today in about the same sense the term "trader" was used in antiquity. It carries with it something of discredit. Public attention is focused on the middleman who profiteers or renders no service commensurate with his profit. Much less thought is given to the essential function of the middleman in our complex system of distribution on which modern life depends, or to the real services he renders and substantial risks he assumes. The public as a whole is without knowledge on which to base a judgment as to his merits and deserts.

The tendency to avoid analysis, to be moved by the appeal of a phrase, to accept unthinkingly the promise of a new law to correct an abuse, is alarming. One meets it on every hand. Thus, an intimate friend of mine, whom I class as an intellectual idealist, frequently announces to me that business is on trial. I have just as frequently replied that such phrases are utterly meaningless and futile, that the whole country is on trial as much as business is on trial, that we should drop the whole jargon of prejudicial phrases and other expressions of incitement, and school ourselves to deal in facts.

Manifestly, it is the duty of the citizen to be guided by facts in his eco-

nomic judgments. In no other way can he meet his individual responsibility to see to it that our public policies are sound. But information is not always ready at hand; most of the time it is offered to him in periods of controversy, when he has precipitately become a partisan and the size of the dose causes him to turn his back and accept a slogan as an easy and welcome substitute; too often, he is absolutely indifferent to his obligation to make an intelligent decision.

On the whole, business has failed to tell its story fully enough or often enough. There is need of the story. Large numbers of our people lack understanding of the plain and simple eco-

nomic factors controlling the operation of business, of the risks involved, of the service rendered by business, of the mutuality of interest between the people and large business units, of the importance to society and the welfare of the people that business make money and add to the national wealth, of the problems involved in the relation between employer and employee under modern conditions. Business cannot afford to be indifferent to this lack of understanding. The demagogue thrives on ignorance. Business should, therefore, pay as much attention to its public relations as it does to its accounting, finance, operation, and distribution.

The high road to greater progress

runs along the line of coöperation between business and the public. This is a much higher standard to attain than periodical conflict or domination either by business or the public; but coöperation in its fullest sense cannot exist unless suspicion and distrust are removed. If the public be taken fully into the confidence of business, if the public knows and understands more about business, suspicion and distrust will largely disappear. Certain it is that there will be greater appreciation of the remarkable advance in standards of business morality, wider knowledge that the tendencies of the day are in the right direction, and less of an inclination to make indiscriminately the criticisms of

the past which have lost their application to business as an institution.

The situation, however, demands much more than merely making known the facts and problems of business, the risks of industry, the difficulties that beset the relation of employer and employee even under the most hopeful conditions. People, who are ever ready to criticize the business man for his shortcomings, will be somewhat more generous, a little more tolerant, not quite so emphatic and much more intelligent in their economic judgments, if the facts are fully known to them. But, after all, the business man must work out his own salvation, without asking or expecting too much from others. His atten-

tion must be concentrated as much upon what he can give to the cause of human progress as upon what he can get. He will be expected to do justice to labor, to be serviceable in working out better solutions for all the human problems in business, to improve the relations between producer and consumer, to eliminate waste and excessive cost, where they exist, and to restrain purely selfish, mercenary instincts (of which business has no monopoly) by a fine sense of public spirit.

At all times, the business man must be conscious of his obligation to help right what seems wrong or in the light of more knowledge may hereafter seem wrong. If he is slow to do this, if his

attitude is recalcitrant, he may find himself overtaken by public ownership or strangled by regulatory legislation hastily applied and poorly conceived, an expression of retaliation and not of sound judgment. He can avoid these results by recognizing the tendencies of intelligent public opinion and by cultivating an idealism which shall precede and not follow the public conscience. In short, business men must be leaders and not the led, must be teachers and not the taught.

The safeguards of the future of private business are the men in its ranks who believe its fundamental purpose is to serve society; who are conscious of their duty to keep its tendencies in the direction of service and to strengthen and

develop these tendencies; who give their best energy and devotion to bring about positive accomplishment in the public interest; who are frank with the public, and can, without fear, let the public know what they are doing and why.

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